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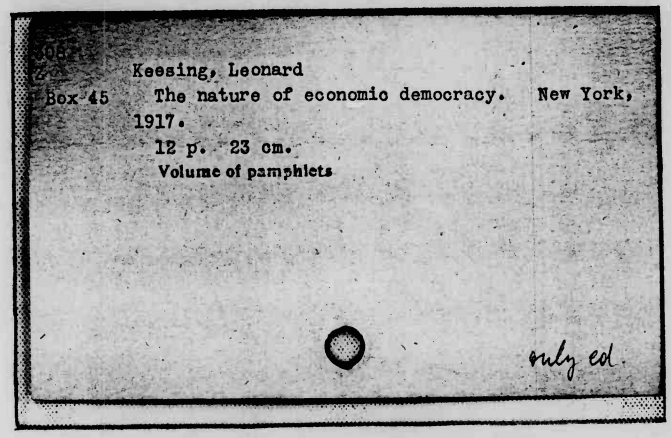

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ECONOMIC DEMOCRACY.

By

LEONARD KEESING.

NEW YORK, SEPTEMBER 1917.

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INTRODUCTION.

Freedom! A magic and fascinating word. Wherever nations cast off the yoke of autocracy, there is apt to develop an extreme degree of individualism. As no sound community can subsist under a regime of unbridled individualistic discretion without soon degenerating into straight anarchy, civilized free countries soon came to adopt the form of government which we are accustomed to call democracy: rule by the people, which conception Lincoln has so nobly and sublimely extended into: Government of the people, by the people, for the people.

The road of human progress is long and wearisome. Yet, as far as political institutions of a purely domestic character are concerned, the world has made great strides, and it would seem as if one of the results of the horrible struggle which is now raging, would be a marked acceleration of this process. Curiously enough, however, the advance of democracy, previous to the outbreak of the European war, was confined largely to the internal political organization. As a rule, neither in the field of international politics, nor in their economic structures, have the democratic nations materially profited by their experience in the domain of their domestic political structure.

Diplomatic business, so far as its organization from the domestic standpoint is concerned, has been carried on along lines of pure autocracy, while, in its external relationship of country to country, the full application of the theory of the " survival of the fittest " has prevailed nearly unhampered. There is room for the hope that, after the war, the much needed democratization of international politics and diplomacy will be undertaken in all countries.

The economic structure of the communities, likewise, seems to have entered a period of transformation, all over the world. Largely due to the exigencies caused by war conditions, government interference has increased to an extent unheard of

in past history—both in belligerent and in neutral countries. It is idle to presume that our economic life will return to its previous forms after the war. Whatever durable reform will prevail, should be shaped according to principles of true democracy: *for* the people and *by* the people. Political reforms can be salutary if obtained by revolutions. Past experience would seem to show that the safe and sound way to achieve economic reform is along the lines of gradual evolution. The present investigation is an attempt to determine the principles of a sound balance of economic forces in a true and broad democracy.

COMMODITIES AND SERVICE.

In economics the general concept of production embraces the sum total of the results—physical and ideal—of human labor. Such results can be divided into two great classes: commodities and service. Commodities are physical results of labor which are created for using-up, or consumption. Service is the creation of non-consumable physical products and of non-physical results of labor. A person who accomplishes an ideal task for which others are prepared to let him share in the results produced by their own labor—as for instance a physician or a preacher—renders an economic service.

The creation of commodities can be—economically speaking—equivalent to service, as in the instance of commodities which are exported and which do not, therefore, add to the available supply of commodities of the economical unit.

ECONOMIC EXERTION.

The specialization in either one or other kind of service, or in the manufacture or raising of definite commodities results in the offering of such service or such commodities in exchange for other services or commodities. The act of rendering economic service to others or of surrendering commodities to others, is economic exertion.

TITLE TO ECONOMIC EXERTION.

If a person has rendered an economic service or has surrendered commodities, he may or may not choose immediately to require an economic exertion in exchange for the exertion effected by himself, *i. e.*, he may wish simply to retain an option on commodities or services in return for his own exertion. In the early, primitive days of economic intercourse, in such a case, one acquired commodities, which by their very character were constantly in demand, and could therefore be easily reconverted into other commodities, or into services, at any time. Gradually the precious metals came to be more and more generally used for this purpose.

To facilitate their circulation in such capacity, it then became customary for the administration of an economic or a political community to mould the metals into discs of uniform alloy, size and weight and to impress each disc with a stamp, expressing its contents. Thus the nominal unit of value was created. This was the first step on the long way of development of our modern monetary systems. Previously the metals, used in settlement of economic exertions, were held and exchanged exclusively in their quality as valuable and easily exchangeable goods, and the money of those days was indeed nothing else than what the economists of the old schools taught that it was, namely a commodity. The action taken by legislative authorities in coining metals opened the era of the creation of money by governmental charter: of " Charter Money." [1] The purpose for which in ancient times metals and other goods then used in settlement of economic transactions, were obtained is not different from the object for which our modern " charter money " is acquired. The goods were—and so is our money of to-day—solely accepted in exchange for an economic exertion because of their property of being at all times easily convertible into such commodities or services—economic exertions—as their holder might wish to secure. So the goods, held as money, were more indirectly what our " charter money " constitutes in a more direct way: a " title to an economic exertion," assigned in return for the exertion by which it was acquired. [2]

GENESIS OF MONEY.

Money being a title to an economic exertion assigned in return for the exertion by which it was obtained, it cannot properly be called into being otherwise than as the natural result of an economic exertion, *i. e.*, either by the surrender of a commodity or by the accomplishment of an economic service, without the simultaneous acquisition, in exchange, of some other commodity or service.

(1) Prof. Georg Friedrich Knapp, " Die staatliche Theorie des Geldes," Leipzig, 1905.

(2) Dr. Friedrich Bendixen, " Geld und Kapital," Leipzig, 1912.

SAFEGUARDS FOR CHARTER MONEY.

The goods used in ancient times as a means of payment, afforded no other safety to the holder than their eventual economic value under the conditions prevailing at the time when he might elect to exchange them for some economic exertion. The appearance of our " charter money " [1] gave rise to the problem of surrounding it with due safeguards. As far as money was made of valuable material up to the full value for which it stood, as in the instance of standard coins, the safety was exactly the same as that of goods held as money under the ancient order of things. In the case of gold coins, the nearly universal adoption of the gold standard, which gave to that metal the character of a universal medium of settlement with a fixed value, increased the safeguards to an almost ideal degree [2]. Subsidiary coins, not containing their full value in metals at the time of their issuance, carry with them the risks of the value of the constituent goods as well as those of a credit instrument to the extent that their face value exceeds the value of their material.

Our present methods of distributing commodities to consumers have created another instrument of settlement which carries the same fundamental economic attributes as money itself. This instrument is the commercial acceptance. The producer does not, as a rule, sell to the consumer direct. He sells to a middleman, or distributor. To the extent that the distributor purchases only goods which he is actually able to sell to the consumer, the seller's draft, accepted by the middleman for payment by the time that the distribution of the goods is accomplished, finds its countervalue in the " titles to economic exertion " which the middleman's own purchasers, the consumers, have to turn over to him. Thus such an accepted draft really constitutes a title to economic exertion just as truly as money does. This is why the circulation

(1) The French economists used the term " Monnaie fiduciaire " before Knapp published his theories, but they applied it to paper money only.

(2) The great European war has upset even the absolute reliance on these safeguards, because some countries have refused to continue the acceptance of gold on the old basis, and others have refused it altogether, either generally or in special instances.

banks have been authorized to issue currency notes against such acceptances of responsible parties as arise from genuine commercial, *i. e.*, distributing, transactions.

From the above it follows that, strictly speaking, the only assets the economic attributes of which make them suitable to be held against currency notes, are gold and commercial acceptances.

CAUSE OF IMPROPER CREATION OF MONEY.

Even in cases where money is technically issued in a more or less serious degree of deviation from the rigid fundamental dictates of sound economics, the purpose of its creation is to satisfy those who actually put forth economic exertions. Whenever monetary instruments are unduly issued, the causal occurrence, therefore, is the exertion itself, either past or future. A disproportion in the money market, consequently, is simply the expression of a similar state of affairs in the market of " economic exertions ", *i. e.*, of commodities and service. The causa causans of such conditions, then, must be, and always is, a disproportion in the correlation of commodities and services.

BALANCE OF ECONOMIC EXERTIONS.

It is easily seen that a well-balanced situation in the " market of economic exertions " exists, if the degree of production of commodities is such as to provide enough to satisfy the requirements of all the members of the community, and if, at the same time, there is enough demand for service to supply those who are not engaged in such production with " titles to economic exertion", enabling them to call for their share of the produced commodities. This answers the familiar question, whether a buyer of luxuries benefits or harms his fellow-citizens. The demand for luxuries is beneficial if the production of necessities is sufficient to cover all requirements, and it is not if labor employed in procuring such luxuries is needed for more useful or legitimate production. Bis idem non idem.

OVERPRODUCTION—DEFLATION.

The invention and adoption of mechanical devices and other applications of scientific progress have always exer-

cised a marked influence on the economic well-being of mankind. By their effect on both the duration and the quantitative yield of the process of production, they have continually reduced the amount of human labor required to obtain the same amount of products. As a consequence, a relatively small fraction of the available working power is able to produce the prime necessities of the entire community. At the same time, however, the standard of life has broadened. The desire for knowledge has improved, which calls for more instructors and more printed publications, paper and printers. The technical and other scientific devices themselves call for technicians and scientists. The better sanitary care calls for hospitals, doctors and nurses. The modern sporting spirit requires sporting articles and the increasing roaming spirit—especially since the popularization of the automobile—calls for roads, vehicles, ships, hotels, combustibles, etc. The film industry in another example of demand for a new kind of labor.

It is quite natural that the numerous kinds of economic activity cannot invariably exist side by side in their most ideal correlation of a perfect equilibrium. There are constantly forces in operation which tend to turn the scale one way or the other. Causes as slight as a change of fashion may reduce or stop the demand for a certain commodity. This will cause unemployment in that particular department of production, and during the period that those employed in that branch need to shift their activity to another field—the length of which also depends on the degree of employment generally prevailing at that time—they have to reduce their expenditure, which in turn results in a decreased demand in other branches. The whole occurrence may be of such a slight nature as hardly to cause a ripple in the general economic situation; but if such a shifting of conditions takes a more important character, or if it comes to pass in several lines of business simultaneously, there may easily result a relaxation of the general economic activity.

Such relaxation, however, may also reach dimensions large enough seriously to upset the entire economic life. Natural disasters may force such a reduction of consumption that the repercussion is felt throughout the country. In all such cases

there is a " passive overproduction ", due to the reduced ability of the population to keep up expenditure on its previous scale. Active overproduction occurs when manufacturers, planning too far ahead, increase their output beyond the limit of the market's power of absorption. If this happens to a large extent, the economic relaxation degenerates into deflation and a crisis breaks out.

UNDERPRODUCTION—INFLATION.

The scale can also turn the other way. If favorable crops or profitable business in trade, transportation, etc., with foreign countries, increase the income of a nation, the population will build new houses, travel more and spend more generally and there will be an increased demand for service. If a government executes public works, there also follows a greater demand for service. This causes an increase in the ability to absorb commodities, that is to say, there results an acceleration or stimulation of economic life. If the government goes so far in such a policy as to divert enough forces from the production of necessities to reduce that production below the point where it covers the requirements, the result will be inflation of a more or less pronounced intensity. The most serious cases of inflation occur in war time, when governments require service on a huge scale, thereby drawing heavily upon the forces producing commodities and at the same time taxing the supply of commodities by entering the field themselves as large consumers, thus combining active and passive underproduction.

ECONOMIC GRAVITATION.

The causes which force the economic pendulum out of its center of gravity automatically liberate forces that work for the re-establishment of the disturbed equilibrium. Overproduction depresses prices, which stimulates consumption on the part of those who do not suffer from unemployment and very often also on the part of foreign countries. At the same time, the lower prices reduce the margin of profit and curtail new production of commodities. As a rule, the capital released from such production will turn to some other venture and thus create a fresh demand for employment. Underproduction sends prices up, which increases the margin of

profit and tends to stimulate the production of commodities at the cost of service, and thus to wipe out the existing disproportion.

As a scientific proposition, this free play of economic forces which constantly lose and regain their position of mutual stability, may furnish an interesting object of investigation, but each swing of the economic pendulum causes untold harm and suffering to countless thousands of people.

ENDOWMENT AND OPPORTUNITY.

The " survival of the fittest " dogma cannot be properly made to apply to our economic structure. It is a doctrine based on the ultimate predominance of those gifted with the greater endowment in a world offering equal opportunity to all. It is in this latter point that the application of this law to economic conditions is faulty. Equality of opportunity is no longer an economic truth in our days.

THE INADEQUACY OF COMMUNISM.

The imperfections of the ecomonic structure have quite naturally prompted students of human affairs to look for a remedy, and as far back as in the days of the ancient Greeks, some have called for the concentration of all sources of production in the hands of the Government. The most recent gospel of communism—the socialistic doctrine—however, varies from the old ones, in that it holds with Marx [1] that our present economic structure must perforce lead to state socialism.

In the light of this socialistic creed, it is evident that the socialists, much as they abhor wars, harbor the hope that the economic experiences of the universal cataclysm will hasten the advent of a socialistic world. Mankind may thus well pause to consider whether this is a worthy end to strive for. To be sure, the purpose of the socialistic theory is lofty. It is intended to stop the brutal consumption of human life and human happiness by the economic machine, and to establish a natural equality of economic opportunity. The trouble with the scheme is that it will only work well if based on a most perfected human nature. It would almost require the existence

(1) Das Kapital, 1867.

of " peace on earth and good will among men " of the promised reign of God to make socialism a success; and if we had attained such a stage of perfection, we could as well live without any scheme, *i. e.*, in a state of theoretical anarchy, where the high moral qualities of man make any kind of rule superfluous. It is true that socialism would remove some of the defects, evils and injustices of our present scheme of things, but it would in turn give rise to other evils of a no less serious nature and it should certainly not be our aim to drive the devil out by Beelzebub. Our economic diseases of to-day are serious and if no stop could be put to them, we might well ask ourselves whether we should not submit with resignation to the drawbacks of socialism for the sake of the advantages to be gained. The fact is, however, that it is perfectly possible to develop and amend our capitalistic world in the direction of greater social and economic justice. And would socialism make the world a better place to live in? Economic government activity increases the state's political control over its population. The leveling of economic life would have a deadening effect on the progress of mankind. It is not true that all men could be got to work according to their ability if no economic inducement were offered for the highest results. Where there is no equality of endowment, there can be no equality of results, and value, as represented by human labor, cannot be leveled. And if it could, this would be the most undesirable thing. The stimulative effect of capitalistic enterprise should not be underestimated. Most of the pioneer work was undertaken by men looking far ahead of their contemporaries and often after the people's representatives had rejected such ventures for the community. Economic activity concentrated in the hands of the state would establish the rule of mediocrity. That a few enterprises—nearly always in the line of service and not of production—have been in the hands of governments, affords no general proof. State circulation banks have in many cases been a failure and the safest way to ensure effective management in the general interest has been found in private enterprise, under governmental supervision. Besides, the experience obtained with government enterprise proves it to be less effective under democratic, than under paternalistic rule. Centralization hardly fosters political

liberty. To take the opposite viewpoint is tantamount to holding that absolute labor control will show itself to be less egoistic than absolute capitalistic control. The history of the labor situation does not sustain this view. It is a well-known fact that not long before the war British shipyards suffered from such lack of skilled labor that they could not meet the demands made upon them. The cause is less generally known. The workmen had previously obtained considerable increases in wages and then chose to work only four or five days a week, because they could make the same income as before. Finally, it would not seem as if the danger of wars would be lessened if the governments themselves, and not their citizens, were engaged in economic international intercourse and competition.

ECONOMIC DEMOCRACY.

The war, through the huge requisition of both service and products by the governments, has necessarily brought forth an increased degree of governmental interference. Governmental action, in making war, having unsettled the balance of economic forces, governmental intervention was needed to set things right again, as far as possible. The war may or may not teach the world democracy by the force of arms, but there is little doubt that it is doing so by its own economic exigencies. The riddle of the war, its financial management, will furnish the key to the study of equity in economics. Gradually it will be more generally recognized that there is a clear distinction between financing—the redistribution of income—and the redistribution of commodities. Enlightened statesmanship will learn to look to the latter as an end to be attained, while considering the former only as a means to reach that goal. The methods resorted to for war purposes will be tested as to their usefulness in peace time. The notion that they all point the way that is dear to socialists, finds no sufficient support in the facts. It is true that private enterprise has been submitted to a larger degree of governmental influence, but at the same time labor has been largely placed under military control.

To a large extent recent history would seem to indicate a natural development which leaves to private capital the initiative of enterprise, but seeks to restore as much as possible

the equality of economic opportunity and at the same time to eliminate the cruelty of the free play of economic forces by enlightened, non-repressive direction.

Scientific regulative action in the " market of ecomonic exertions " though perhaps calling for higher taxes, will bring forth a more uniform, stable and general prosperity. As in the instance of circulation banks, it will be possible to assure the scientific character of the management and at the same time to exclude the disturbing and undesirable influence of political interests by semi-official organization in which predominance could and should be granted to non-political expert opinion.

The recent proposal, ascribed to the British trade-unionist Sidney Webb, that the execution of public works be in future undertaken as far as possible in times of decreasing demand for labor, indicates that labor will make the stability between service and the production of commodities the keynote of its demands after the war. From the way statesmen will catch up with the problem and the opportunity to direct the trend of its solution may depend whether the world shall escape the dangers to individual and political freedom which lurk in economic state socialism. The redistribution of production is far more important than the redistribution of income: this is the dominant truth, by which we should be guided.

CONCLUSION.

While the system of private enterprise with public control of the correlation between service and the production of commodities is certain to afford a better basis for individual liberty and political independence than the organization of state monopolies of which the socialists dream, there should be no illusion as to the fact that no scheme—however democratic in its original conception—can bring the desired results unless it be executed in a spirit of true democracy—not only by the people, but at the same time for *all* the people. Experience shows that the merits of a program are less important than the human qualities of those who have to put it in practice —both actively and passively. Democracy is not so much a system as it is a mental and moral disposition;—in fact, it is a creed.

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